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COMMISSIONERS

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
LAS QUINTAS SERENAS WATER CO. FOR A
RATE INCREASE.

DOCKET NO. W-01583A-04-0178

IN THE MATTER OF THE APPLICATION OF
LAS QUINTAS SERENAS WATER CO. FOR
AUTHORITY TO INCUR LONG-TERM
INDEBTEDNESS TO FINANCE WATER
SYSTEM IMPROVEMENTS AND ASSURE
COMPLIANCE WITH NEW ARSENIC RULES.

DOCKET NO. W-01583A-05-0326

IN THE MATTER OF THE APPLICATION OF
LAS QUINTAS SERENAS WATER CO. FOR AN
OPINION AND ORDER TO (i) RE-OPEN THE
RECORD IN A RECENT RATE CASE SO AS TO
CONSIDER EVIDENCE IN SUPPORT OF AN
ARSENIC COST RECOVERY MECHANISM,
AND (ii) MODIFY RATE CASE DECISION IN
ORDER TO ADD AN ARSENIC COST
RECOVERY MECHANISM AS AN
AUTHORIZED RATE AND CHARGE.

DOCKET NO. W-01583A-05-0340

PROCEDURAL ORDER

BY THE COMMISSION:

On May 2, 2005 and May 12, 2005, Las Quintas Serenas Water Company ("LQS" or "Company") made four filings with the Arizona Corporation Commission ("Commission"). Those four filings are inter-related. First, LQS made a financing application to incur up to \$1,789,375 in long-term debt in order to make capital improvements to address the new arsenic standards and other water system improvements (Docket No. W-01583A-05-0326) ("Finance Application").

Second, LQS filed a new application to re-open the record in its most recent rate case¹ and amend Decision No. 67455 (January 4, 2005), so that the debt financing could be included in present rates for capital improvements not related to arsenic treatment (Docket No. W-01583A-05-0339).

¹ Docket No. W-01583A-04-0178.

1 Third, LQS made a new application to amend Decision No. 67455 so that the arsenic
2 treatment costs related to the debt financing could be recovered through an Arsenic Recovery
3 Mechanism ("ACRM") (Docket No. W-01583A-05-0340).

4 Fourth, LQS filed a Motion to re-open the recent rate case (Docket No. W-01583-04-0178).

5 On May 25, 2005, Staff filed (in Docket No. W-01583A-04-0178) a Response to Re-open the
6 Record in Docket No. W-01583-04-0178. Because arsenic is one of the most pressing issues
7 affecting water utilities today, Staff believed that the need to address arsenic treatment was an
8 extraordinary circumstance that would warrant re-opening the recent rate case. Thus, Staff had no
9 opposition to re-opening the last LQS rate case, but only to address arsenic treatment. Staff opposed
10 re-opening the former rate case for any other purpose.

11 On June 1, 2005, Staff filed a request to close Docket No. W-01583A-05-0339. Becasue Staff
12 was opposed to re-opening the recent rate case for any other reason than to consider arsenic
13 treatment, and because this docket requests re-opening the docket for non-arsenic related issues, Staff
14 believed this docket should be administratively closed.

15 By Procedural Orders dated June 1, 2005 and June 3, 2005, a Procedural Conference was set
16 to commence on June 23, 2005 in the four dockets for the purpose of determining how to proceed in
17 this matter and which, if any, of the dockets should be consolidated or closed.

18 On June 14, 2005, LQS filed a Motion to Amend the Finance Application. LQS stated its
19 initial Finance Application misstated the proportionate amount of the financing request related to
20 arsenic and non-arsenic projects. In its Motion to Amend, LQS clarified that of the total financing
21 authority requested of \$1,789,375, \$1,648,750 was related to arsenic treatment and the remaining
22 \$140,625 was related to other non-arsenic capital improvements.

23 At the June 23, 2005 Procedural Conference, the parties argued their respective positions. In
24 addition, Staff opposed consolidating the Finance Application with the Application to Re-open
25 because the Finance Application contained non-arsenic related improvements. LQS explained that
26 the non-arsenic related portion of the Finance Application was needed to allow the Company to
27 install needed storage facilities. LQS stated that although it believed that the non-arsenic related
28 financing request should be considered and a recovery mechanism enacted, it would further amend its

1 Finance Application to bifurcate the two financing requests in order to facilitate moving forward on
2 the arsenic recovery mechanism.

3 On July 7, 2005, in Docket No. W-01583A-05-0326, LQS filed a Motion to Amend the
4 Finance Application to remove that portion of the Financing request related to non-arsenic related
5 capital improvements.

6 The new federal arsenic rules become effective on January 23, 2006. Absent its Amended
7 Finance Application and Application to re-open its recent rate case and institute an ACRM, LQS does
8 not have the ability to make the necessary arsenic treatment improvements. The need to address
9 arsenic treatment in a timely manner warrants re-opening Docket No. W-01583A-04-0178 to
10 consider implementing an ACRM to recover the costs of arsenic treatment. The Finance Application
11 is directly and substantially related to the Application to Re-open the Record, and the three dockets
12 captioned above should be consolidated, and the matter set for hearing.

13 With LQS' Amendment of its Finance Application to include only arsenic related
14 improvements, the Application to re-open the record to consider the debt financing for capital
15 improvements not related to arsenic treatment (Docket No. W-01583A-05-0339) has been mooted.
16 Consequently, Docket No. W-01583A-05-0339 should be administratively closed.

17 Pursuant to A.A.C. R14-3-101, the Commission now issues this Procedural Order to govern
18 the preparation and conduct of this proceeding.

19 IT IS THEREFORE ORDERED that the Company's request to amend its Finance
20 Application to include only expenses associated with its proposed arsenic treatment plan is granted.

21 IT IS FURTHER ORDERED that Dockets W-01583A-05-0326, W-01583A-04-0178 and W-
22 01583A-05-0340 shall be consolidated.

23 IT IS FURTHER ORDERED that pursuant to A.R.S. §40-252, Docket No. W-01583A-04-
24 0178 shall be re-opened to consider LQS's request to establish an Arsenic Cost Recovery
25 Mechanism.

26 IT IS FURTHER ORDERED that Docket No. W-01583A-05-0339 shall be administratively
27 closed.
28

1 IT IS FURTHER ORDERED that a **hearing** in the consolidated matters shall commence on
2 **October 26, 2005, at 10:00 a.m.**, or as soon thereafter as is practical, at the Commission's offices,
3 **Room 222, 400 West Congress, Tucson, Arizona.**

4 IT IS FURTHER ORDERED that a pre-hearing conference shall be held on **October 20,**
5 **2005, at 1:30 p.m.** at the Commission's Tucson offices, Room 218, for the purpose of scheduling
6 witnesses and the conduct of the hearing. Parties may appear telephonically by making prior
7 arrangements with the Administrative Law Judge.

8 IT IS FURTHER ORDERED that direct testimony and associated exhibits to be presented at
9 hearing by LQS shall be reduced to writing and filed on or before **August 23, 2005.**

10 IT IS FURTHER ORDERED that testimony and associated exhibits to be presented at hearing
11 by Staff or any Intervenors shall be reduced to writing and filed on or before **September 30, 2005.**

12 IT IS FURTHER ORDERED that any rebuttal testimony and associated exhibits to be
13 presented at hearing by LQS shall be reduced to writing and filed on or before **October 14, 2005.**

14 IT IS FURTHER ORDERED that any surrebuttal testimony and any rejoinder testimony shall
15 be presented orally at the hearing.

16 IT IS FURTHER ORDERED that any objections to any testimony or exhibits that have been
17 prefiled as of October 14, 2005, shall be made before or at the October 20, 2005 pre-hearing
18 conference.

19 IT IS FURTHER ORDERED that all testimony filed shall include a table of contents that lists
20 the issues discussed.

21 IT IS FURTHER ORDERED that any substantive corrections, revisions, or supplements to
22 pre-filed testimony shall be reduced to writing and filed no later than five days before the witness is
23 scheduled to testify.

24 IT IS FURTHER ORDERED that the parties shall prepare a brief, written summary of the
25 pre-filed testimony of each of their witnesses and shall file each summary by 3:00 p.m. on **October**
26 **21, 2005.**

27 IT IS FURTHER ORDERED that copies of summaries shall be served upon the Presiding
28 Officer, the Commissioners, and the Commissioners' aides, as well as the parties of record.

1 IT IS FURTHER ORDERED that intervention shall be in accordance with A.A.C. R14-3-105,
2 except that all motions to intervene must be filed on or before **September 21, 2005**.

3 IT IS FURTHER ORDERED that discovery shall be as permitted by law and the rules and
4 regulations of the Commission, except that: until October 3, 2005, any objection to discovery
5 requests shall be made within 7 days² of receipt and responses to discovery requests shall be made
6 within 10 days of receipt; thereafter, objections to discovery requests shall be made within 5 days and
7 responses shall be made in 7 days; the response time may be extended by mutual agreement of the
8 parties involved if the request requires an extensive compilation effort; and no discovery requests
9 shall be served after October 19, 2005.

10 IT IS FURTHER ORDERED that, in the alternative to filing a written motion to compel
11 discovery, any party seeking discovery may telephonically contact the Commission's Hearing
12 Division to request a date for a procedural hearing to resolve the discovery dispute; that upon such a
13 request, a procedural hearing will be convened as soon as practicable; and that the party making such
14 a request shall forthwith contact all other parties to advise them of the hearing date and shall at the
15 hearing provide a statement confirming that the other parties were contacted.³

16 IT IS FURTHER ORDERED that any responses to motions shall be filed within five days of
17 the filing date of the motion.

18 IT IS FURTHER ORDERED that any replies shall be filed within five days of the filing date
19 of the response.

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27 ² "Days" means calendar days.

28 ³ The parties are encouraged to attempt to settle discovery disputes through informal, good-faith negotiations before seeking Commission resolution of the controversy.

IT IS FURTHER ORDERED that public notice of the hearing in this matter shall be provided in the following form and style, with the heading in no less than 12 point type and the body in no less than 10 point type:

**PUBLIC NOTICE OF HEARING ON THE APPLICATION OF
LAS QUINTAS SERENAS WATER COMPANY, FOR AUTHORITY TO IMPLEMENT AN
ARSENIC COST RECOVERY MECHANISM
Docket No. W-01583A-05-0340 et al.**

On May 15, 2005, Las Quintas Serenas Water Co. ("Company") filed with the Arizona Corporation Commission ("Commission") an application for authority to implement a charge to recover the cost of new water treatment facilities needed to comply with new federal government drinking water standards. The new federal standards, which become effective January 23, 2006, reduce the maximum level of arsenic allowed in drinking water from 50 to 10 parts per billion. On May 2, 2005, the Company filed a Finance Application seeking authority to incur long-term debt in the amount of \$1,648,750 associated with the capital improvements needed to treat arsenic. The exact type of recovery mechanism has not yet been defined. If approved by the Commission, an additional charge to allow for recovery of the costs associated with arsenic treatment would be effective in early 2006, and would increase the average monthly residential bill by an as yet undetermined amount. Copies of the Company's application and other filings are available at the Company's office [COMPANY INSERT ADDRESS AND CONTACT INFORMATION HERE] and at the Commission's Docket Control Center for public inspection during regular business hours.

The Commission will hold a public hearing on this matter beginning **October 26, 2005 at 10:00 a.m.** at the Commission's offices, Room 222, 400 West Congress Street, Tucson, Arizona. Public comments will be taken on the first day of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission no later than **September 21, 2005**. The motion to intervene must be sent to all parties of record, and shall contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any entity upon whom service of documents is to be made if different from the intervenor;
2. A short statement of the proposed intervenor's interest in the proceeding; and
3. A statement certifying that a copy of the motion to intervene has been mailed to all parties of record in the proceeding.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment or from filing written comments in the record

1 of the case. You will not receive any further notice of this proceeding unless you
2 request it.

3 If you have any questions about this application, or want further information on
4 intervention, you may contact the Consumer Services Section of the Commission at
5 1200 W. Washington Street, Phoenix, Arizona 85007 or call 1-800-222-7000.

6 The Commission does not discriminate on the basis of disability in admission to its
7 public meetings. Persons with a disability may request a reasonable accommodation
8 such as a sign language interpreter, as well as request this document in an alternative
9 format, by contacting Linda Hogan, ADA Coordinator, voice phone number 602/542-
10 3931, E-mail LHogan@azcc.gov. Requests should be made as early as possible to
11 allow time to arrange the accommodation.

12 IT IS FURTHER ORDERED that LQS shall cause a copy of the above-ordered notice to be
13 published in a newspaper of general circulation in its service area no later than **August 31, 2005**, and
14 shall file certification of publication as soon as practicable after publication has been completed.

15 IT IS FURTHER ORDERED that LQS shall mail a copy of the above-ordered notice to each
16 of its customers by First Class United States mail no later than **August 31, 2005**; and shall file
17 certification of mailing as soon as practicable after mailing has been completed.

18 IT IS FURTHER ORDERED that notice shall be deemed complete upon publication and
19 mailing of same, notwithstanding the failure of an individual to read the notice.

20 IT IS FURTHER ORDERED that the Ex Parte Rule (A.A.C. R14-3-113 - Unauthorized
21 Communications) applies to this proceeding and shall remain in effect until the Commission's
22 Decision in this matter is final and non-appealable.

23 IT IS FURTHER ORDERED that the time periods specified herein shall not be extended
24 pursuant to Rule 6(a) or (e) of the Rules of Civil Procedure.

25 IT IS FURTHER ORDERED that the Presiding Officer may rescind, alter, amend, or waive
26 any portion of this Procedural Order either by subsequent Procedural Order or by ruling at hearing.

27 DATED this 27th day of July, 2005.

28

JANE L. RODDA
ADMINISTRATIVE LAW JUDGE

1 Copies of the foregoing mailed
2 this 27th day of July, 2005 to:

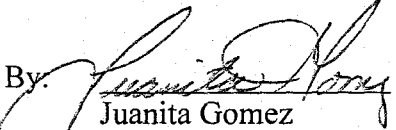
3 Mr. Steve Gray
4 General Manager/Operator
5 Las Quintas Serenas Water Company
6 16965 Camino De Las Quintas
7 P.O. Box 68
8 Sahuarita, AZ 85629

9 Lawrence V. Robertson Jr
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11 333 N Wilmot Suite 300
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16 ARIZONA CORPORATION COMMISSION
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18 Phoenix, Arizona 85007

19 Ernest Johnson, Director
20 Utilities Division
21 ARIZONA CORPORATION COMMISSION
22 1200 W. Washington Street
23 Phoenix, Arizona 85007

24 Arizona Reporting Service, Inc.
25 2627 N. Third Street, Suite Three
26 Phoenix, Arizona 85004-1103

27 By: 
28 Juanita Gomez
Secretary to Jane L. Rodda